

Washington State Auditor's Office

Audit Report

Audit Services

Report No. 57748

MCCLEARY SCHOOL DISTRICT No. 65

Grays Harbor County, Washington

September 1, 1993 Through August 31, 1995

Issue Date: September 20, 1996

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McCLeARY SCHOOL DISTRICT No. 65
Grays Harbor County, Washington
September 1, 1993 Through August 31, 1995

**Independent Auditor's Report On Compliance With Laws And Regulations
At The Financial Statement Level (Plus Additional State Compliance
Requirements Per RCW 43.09.260)**

Board of Directors
McCLeary School District No. 65
McCLeary, Washington

We have audited the financial statements, as listed in the table of contents, of McCLeary School District No. 65, Grays Harbor County, Washington, as of and for the fiscal years ended August 31, 1995 and 1994, and have issued our report thereon dated August 23, 1996.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Compliance with laws, regulations, contracts, and grants applicable to McCLeary School District No. 65 is the responsibility of the district's management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the district's compliance with certain provisions of laws, regulations, contracts, and grants.

We also performed additional tests of compliance with state laws and regulations as required by *Revised Code of Washington* (RCW) 43.09.260. This statute requires the State Auditor to inquire as to whether the district complied with the laws and the *Constitution of the State of Washington*, its own ordinances and orders, and the requirements of the State Auditor's Office. Our responsibility is to examine, on a test basis, evidence about the district's compliance with those requirements and to make a reasonable effort to identify any instances of misfeasance, malfeasance, or nonfeasance in office on the part of any public officer or employee and to report any such instance to the management of the district and to the Attorney General. However, the objective of our audit of the financial statements was not to provide an opinion on overall compliance with these provisions. Accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of material noncompliance that are required to be reported herein under *Government Auditing Standards*. However, we noted instances of noncompliance immaterial to the financial statements which are identified in the Schedule of Findings accompanying this report.

We also noted matters involving noncompliance with laws and regulations related to federal financial assistance which were reported to the district's management in our reports on general requirements and specific compliance for nonmajor program transactions, and in the Schedule of Federal Findings and Schedule of Questioned Costs.

This report is intended for the information of management and the board of directors and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag
State Auditor

August 23, 1996

McCLeary School District No. 65
Grays Harbor County, Washington
September 1, 1993 Through August 31, 1995

Independent Auditor's Report On Internal Control Structure
At The Financial Statement Level

Board of Directors
McCLeary School District No. 65
McCLeary, Washington

We have audited the financial statements of McCLeary School District No. 65, Grays Harbor County, Washington, as of and for the fiscal years ended August 31, 1995 and 1994, and have issued our report thereon dated August 23, 1996.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

The management of the district is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with the prescribed basis of accounting. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the financial statements of the district, we obtained an understanding of the internal control structure. With respect to the internal control structure, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The matters involving the internal control structure and its operation that we consider to be reportable conditions are included in the Schedule of Findings and Schedule of Federal Findings accompanying this report.

A material weakness is a reportable condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe none of the reportable conditions described in the Schedule of Findings and Schedule of Federal Findings is a material weakness.

We also noted matters involving compliance with laws and regulations related to federal financial assistance which were reported to the district's management in our reports on general requirements and specific compliance for nonmajor program transactions, and the Schedule of Federal Findings and Schedule of Questioned Costs.

This report is intended for the information of management and the board of directors and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag
State Auditor

August 23, 1996

McCLEARY SCHOOL DISTRICT NO. 65
Grays Harbor County, Washington
September 1, 1993 Through August 31, 1995

Schedule Of Findings

1. The District Should Obtain Adequate Documentation To Support Local Receipts And Payments

During our examination of the district's accounts payable, payroll, and local cash receipting systems, we noted several instances in which the transactions were made and recorded on the district's books and records without supporting documentation. Some of the items noted are listed below:

Cash receipts:

- The mode of payment, whether cash/check or both is not recorded on the local cash receipts.
- There were no underlying records to support ASB revenue activity for annual sales or concessions.

Accounts payable:

- Some vouchers lacked original invoices or other adequate supporting documentation. Payments were made using pieces of scrap paper or "post-it" notes, which would indicate the person to be paid, the dollar amounts, and coding of the purchases. These pieces of paper appeared to be prepared by district staff, rather than the outside party who supplied the goods and services to the district.
- In addition, individual charge slips were turned in for reimbursement by employees of the district with a short explanation written on the charge slip, such as "board trip-dinner" or "meeting in Olympia". There was no certification by the employee that the expense was incurred for the district benefit.
- The district's credit card was used to purchased meals at places in or near town for board meetings or faculty meetings. The meetings were held during mealtimes, rather than regular working hours.
- Some vouchers were not certified, and the auditor could not determine if the transaction was in accordance with management's authorization.
- Some vouchers were improperly coded to programs in which the expenditure was not in compliance with the program's objectives. (As an example, the drill team advisor and the track coach's stipends were coded to federal drug-free program.)
- The backup documentation to support the ASB expenditures was difficult or impossible to agree to the corresponding voucher/warrant because the documentation was not stapled or attached to the voucher in a secure fashion. Some expenditures did

not have any back-up documentation on file. Most vouchers lacked student approval signatures. Vouchers also lacked the auditing officer's signature.

- Unallowable expenditures were noted. Examples include, but are not limited to, cash awards given to students.
- Adjusting journal entries were made without supporting documentation on file.

Payroll:

- Supplemental contracts were not used by the district for payments to teachers for any extracurricular activities. (Many of the voucher payments documented on pieces of paper, or "post-it" notes were extracurricular activities.)
- Amounts paid to certificated staff could not be agreed to contracts or contract amendments.
- No supporting documentation existed for time paid to classified employees for the hours they worked. (A classified employee was paid for the time the employee was scheduled to work at the beginning of the school year. Unless a classified employee worked overtime, a time sheet was not completed.) Documentation for overtime pay to classified employees was incomplete. (There are time sheets for some employees who were paid overtime, but not all employees who were paid overtime had time sheets.)

RCW 43.09.200 states in part:

The accounts shall show the . . . documents kept or required to be kept, necessary to isolate and prove the validity of every transaction . . .

In addition, RCW 42.24.090 states in part:

All claims authorized under this section shall be duly certified by the officer or employee submitting such claims on forms and in the manner prescribed by . . . the State Auditor.

This situation occurred because the district's management allowed established internal controls to be circumvented. Apparently, the district's staff were not aware of the need to generate and retain source documents to support the district's accounting records.

Lack of proper documentation for transactions exposes the district to the risk of making improper and possibly invalid payments. Without appropriate accounting documentation, we are unable to verify that the district's accounting records are complete and accurate. Furthermore, the public cannot be assured that the actual transactions were appropriate.

We recommend that the district obtain and retain adequate documentation necessary to support all transactions as required by law.

2. District Officials Should Comply With State Bid Laws And District Bidding Policy

During the 1994-95 school year, the district obtained quotes for construction of a bus barn/storage shed. The district chose not to award a portion of the work to the lowest bidder. The district could not provide documentation to support that they awarded the work to the lowest, responsible bidder.

RCW 28A.355.190 requires that all work be awarded to the lowest responsible bidder, and documentation to support this be maintained.

During the 1994-95 school year, the district purchased a used portable classroom. The district did not obtain three phone quotes for a comparable product, as required by statute, or solicit formal bids for a comparable product, as required by district policy.

RCW 28A.335.190 requires three phone quotes to be obtained for purchases in excess of \$15,000.

District policy No. 7321 states in part:

Whenever in the opinion of the board the cost of any supplies, equipment or work shall exceed \$20,000, formal bids shall be called for . . .

Without soliciting competitive bids, the district cannot be assured that the project was completed at the lowest possible cost.

Further, without adequate documentation being maintained, the public cannot be assured that bids are awarded to the lowest, responsible bidder.

We recommend that the district officials follow state bid laws and their own bid policies.

Auditee's Response

We concur with your findings for the fiscal years ended August 31, 1995 and 1994.

We have analyzed each finding, and have taken steps to insure that similar occurrences do not repeat themselves in the future. We have hired a new business manager this last year and we feel she is competent to follow state guidelines closely and keep the District fiscally responsible.

Also, we have asked to have a partial audit in the next year to insure that we are in compliance with all regulations.

Our intent is to provide the best possible educational environment for the students of McCleary. Unfortunately, some of our financial decisions appear not to have been made within the constraints of fiscal requirements. However, I think it is important to note that all monies were spent to improve learning for students.

I am disappointed that, prior to this audit, we did not have any findings in the previous audits of our District and now are faced with the number of issues with this audit. I would think that these issues would have been brought to our attention at an earlier date.

Auditor's Concluding Remarks

Based upon the district's response, it appears the issues raised in our findings will be adequately addressed in the future. We will review these issues again next year to assure corrective actions have been taken.

We would like to thank the staff of McCleary School District for their assistance and cooperation throughout the course of our audit.

McCLeARY SCHOOL DISTRICT No. 65
Grays Harbor County, Washington
September 1, 1993 Through August 31, 1995

Independent Auditor's Report On Financial Statements

Board of Directors
McCLeary School District No. 65
McCLeary, Washington

We have audited the accompanying financial statements of McCLeary School District No. 65, Grays Harbor County, Washington, as of and for the fiscal years ended August 31, 1995 and 1994. These financial statements are the responsibility of the district's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the district prepares its financial statements on the cash basis of accounting prescribed by Washington State statutes and the *Accounting Manual for Public School Districts in the State of Washington*, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the cash and unencumbered cash balances of McCLeary School District No. 65 as of August 31, 1995 and 1994, and the revenues it received and expenditures it paid for the fiscal years then ended, on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued a report dated August 23, 1996, on our consideration of the district's internal control structure and a report dated August 23, 1996, on its compliance with laws and regulations.

Brian Sonntag
State Auditor

August 23, 1996

McCLeary School District No. 65
Grays Harbor County, Washington
September 1, 1993 Through August 31, 1995

Independent Auditor's Report On Supplementary Information
Schedule Of Federal Financial Assistance

Board of Directors
McCLeary School District No. 65
McCLeary, Washington

We have audited the financial statements of McCLeary School District No. 65, Grays Harbor County, Washington, as of and for the fiscal years ended August 31, 1995 and 1994, and have issued our report thereon dated August 23, 1996. These financial statements are the responsibility of the district's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Our audit was made for the purpose of forming an opinion on the financial statements of McCLeary School District No. 65 taken as a whole. The accompanying Schedules of Federal Financial Assistance are presented for purposes of additional analysis and are not a required part of the financial statements. The information in the schedules has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

Brian Sonntag
State Auditor

August 23, 1996

McCLeary School District No. 65
Grays Harbor County, Washington
September 1, 1993 Through August 31, 1995

**Independent Auditor's Report On Compliance With The General Requirements
Applicable To Federal Financial Assistance Programs**

Board of Directors
McCLeary School District No. 65
McCLeary, Washington

We have audited the financial statements of McCLeary School District No. 65, Grays Harbor County, Washington, as of and for the fiscal years ended August 31, 1995 and 1994, and have issued our report thereon dated August 23, 1996.

We have applied procedures to test the district's compliance with the following requirements applicable to its federal financial assistance programs, which are identified in the Schedules of Federal Financial Assistance, for the fiscal years ended August 31, 1995 and 1994:

- Political activity
- Civil rights
- Allowable costs/cost principles
- Drug-Free Workplace Act
- Administrative requirements

The following requirements were determined to be not applicable to its federal financial assistance programs:

- Davis-Bacon Act
- Cash management
- Relocation assistance and real property acquisition
- Federal financial reports
- Subrecipient monitoring

Our procedures were limited to the applicable procedures described in the Office of Management and Budget's (OMB) *Compliance Supplement for Single Audits of State and Local Governments* or alternative procedures. Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on the district's compliance with the requirements listed in the preceding paragraph. Accordingly, we do not express such an opinion.

Material instances of noncompliance are failures to follow general requirements that cause us to conclude that the aggregation of the misstatements resulting from those failures or violations is material to the program. The results of our tests of compliance disclosed material instances of noncompliance that are described in the accompanying Schedule of Federal Findings and Schedule of Questioned Costs.

We considered the material instances of noncompliance in forming our opinion on whether the financial statements are presented fairly, in all material respects, in conformity with the prescribed basis of

accounting, and this report does not affect our report dated August 23, 1996, on those financial statements.

Except as described above, the results of our tests of compliance indicate that, with respect to the items tested, McCleary School District No. 65 complied, in all material respects, with the requirements referred to in the second paragraph of this report, and with respect to items not tested, nothing came to our attention that caused us to believe the district had not complied, in all material respects, with those requirements.

This report is intended for the information of management and the board of directors and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag
State Auditor

August 23, 1996

McCLeary School District No. 65
Grays Harbor County, Washington
September 1, 1993 Through August 31, 1995

Independent Auditor's Report On Compliance With Specific Requirements
Applicable To Nonmajor Federal Financial Assistance Program Transactions

Board of Directors
McCLeary School District No. 65
McCLeary, Washington

We have audited the financial statements of McCLeary School District No. 65, Grays Harbor County, Washington, as of and for the fiscal years ended August 31, 1995 and 1994, and have issued our report thereon dated August 23, 1996.

In connection with our audit of the financial statements of the district and with our consideration of the district's control structure used to administer its federal financial assistance programs, as required by OMB Circular A-128, *Audits of State and Local Governments*, we selected certain transactions applicable to certain nonmajor federal financial assistance programs for the fiscal years ended August 31, 1995 and 1994. As required by OMB Circular A-128, we have performed auditing procedures to test compliance with the requirements governing allowability of the program expenditures that are applicable to those transactions. Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on the district's compliance with these requirements. Accordingly, we do not express such an opinion.

With respect to the items tested, the results of those procedures disclosed no material instances of noncompliance with the requirements listed in the preceding paragraph. With respect to the items not tested, nothing came to our attention that caused us to believe that McCLeary School District No. 65 had not complied, in all material respects, with those requirements. However, the results of our procedures disclosed immaterial instances of noncompliance with those requirements, which are described in the accompanying Schedule of Federal Findings and Schedule of Questioned Costs.

This report is intended for the information of management and the board of directors and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag
State Auditor

August 23, 1996

McCLeary School District No. 65
Grays Harbor County, Washington
September 1, 1993 Through August 31, 1995

**Independent Auditor's Report On Internal Control Structure Used In
Administering Federal Financial Assistance Programs**

Board of Directors
McCLeary School District No. 65
McCLeary, Washington

We have audited the financial statements of McCLeary School District No. 65, Grays Harbor County, Washington, as of and for the fiscal years ended August 31, 1995 and 1994, and have issued our report thereon dated August 23, 1996.

We conducted our audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, issued by the Comptroller General of the United States, and the provisions of OMB Circular A-128, *Audits of State and Local Governments*. Those standards and OMB Circular A-128 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

In planning and performing our audit, we considered the district's internal control structure in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and to report on the internal control structure in accordance with OMB Circular A-128. This report addresses our consideration of internal control structure policies and procedures relevant to compliance with requirements applicable to federal financial assistance programs. We have addressed internal control structure policies and procedures relevant to our audit of the financial statements in a separate report dated August 23, 1996.

The management of the district is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that:

- Assets are safeguarded against loss from unauthorized use or disposition.
- Transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with the prescribed basis of accounting.
- Federal financial assistance programs are managed in compliance with applicable laws and regulations.

Because of inherent limitations in any internal control structure, errors, irregularities, or instances of noncompliance may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of

changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report, we have classified the significant internal control structure policies and procedures used in administering federal financial assistance programs in the following categories:

- **Accounting Controls**
 - Payroll
- **General Requirements**
 - Political activity
 - Civil rights
 - Allowable costs/cost principles
 - Drug-Free Workplace Act
 - Administrative requirements
- **Specific Requirements**
 - Types of services
 - Eligibility
 - Level of effort
 - Special requirements
- **Claims For Reimbursements**
- **Amounts Claimed Or Used For Matching**

For all of the applicable internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and determined whether they have been placed in operation, and we assessed control risk.

The following internal control structure categories were determined to be insignificant to federal financial assistance programs:

- **Accounting Controls**
 - Cash receipts
 - Cash disbursements
 - Receivables
 - Accounts payable
 - Purchasing and receiving
 - Inventory control
 - Property, plant, and equipment
 - General ledger
- **General Requirements**
 - Davis-Bacon Act
 - Cash management
 - Relocation assistance and real property acquisition
 - Federal financial reports
 - Subrecipient monitoring
- **Specific Requirements**
 - Matching and earmarking
 - Reporting
- **Claims For Advances**

During the fiscal year ended August 31, 1995, the district had no major federal financial assistance programs and expended 68 percent of its total federal financial assistance under the following nonmajor federal financial assistance programs: National School Lunch (CFDA 10.555) and Chapter 1 (CFDA 84.010A)

We performed tests of controls, as required by OMB Circular A-128, to evaluate the effectiveness of the design and operation of internal control structure policies and procedures that we considered relevant to preventing or detecting material noncompliance with specific requirements, general requirements, and requirements governing claims for advances and reimbursements, and amounts claimed or used for matching that are applicable to the aforementioned nonmajor programs. Our procedures were less in scope than would be necessary to render an opinion on these internal control structures policies and procedures. Accordingly, we do not express such an opinion.

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the district's ability to administer federal financial assistance programs in accordance with applicable laws and regulations.

The matters involving the internal control structure and its operation that we consider to be reportable conditions are included in the Schedule of Federal Findings accompanying this report.

A material weakness is a reportable condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure policies and procedures used in administering federal financial assistance would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are considered to be material weaknesses as defined above. However, we noted reportable conditions involving the internal control structure and its operation that we believe to be material weaknesses as described above. The conditions, which are identified in the Schedule of Federal Findings accompanying this report, were considered in determining the nature, timing, and extent of the procedures to be performed in our audit of the district's compliance with requirements applicable to its nonmajor federal financial assistance programs for the fiscal years ended August 31, 1995 and 1994, and this report does not affect our report thereon dated August 23, 1996.

This report is intended for the information of management and the board of directors and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag
State Auditor

August 23, 1996

McCLeary School District No. 65
Grays Harbor County, Washington
September 1, 1993 Through August 31, 1995

Schedule Of Federal Findings

1. District Officials Should Only Charge Actual Expenditures Against Federal Programs

During our current audit of McCleary School District, we noted the following deficiencies in the district's accounting for its federal grant awards.

Chapter 1 (CFDA 84.010) for the 1993-94 and 1994-95 school years:

- At the end of the 1993-94 school year, the district journal vouchered \$3,150 into the Chapter 1 program. No supporting documents could be located for this transaction.
- During 1993-94, a portion of the superintendent's and bookkeeper's salaries were being charged directly to the grant, which is not allowed under federal guidelines) \$6,907.63.
- Also, at the end of the 1993-94 school year, the district did several year-end journal vouchers to transfer \$3,771.69 to the state Learning Assistance Program (LAP) grant. The \$3,771.69 cannot be substantiated as valid LAP expenditures. If LAP funds are not expended a supplanting condition occurs.
- At the end of the 1994-95 school year, the district vouchered \$3,415 into the Chapter 1 program. No support was available for this transaction.
- Also, during 1994-95, a portion of the superintendent's and bookkeeper's salaries were being charged directly to the grant which is not allowed under federal guidelines) \$7,114.34.
- The district did a year-end journal voucher to transfer \$1,000 to the state LAP grant. The \$1,000 cannot be substantiated as valid LAP expenditures. If LAP funds are not expended, a supplanting condition occurs.

Federal Handicapped programs, IDEA Title VI-B (CFDA 84.027) and IDEA Preschool (CFDA 84.173), for the 1993-94 and 1994-95 school years:

- At the end of the 1993-94 school year, the district journal vouchered \$14,606 in expenditures into these programs. No supporting documentation could be located that supported these charges as relating to the federal program.
- At the end of the 1994-95 school year, the district journal vouchered \$13,125 in expenditures into these programs. No supporting documentation could be located that supported these charges as relating to the federal program.

- Also, during the 1994-95 school year, the district charged \$158.72 to federal handicapped programs which were attributable to the schools drill team and not an allowable expenditure of these federal grant awards.
- Furthermore, both the IDEA Title VI-B and IDEA Preschool grants were accounted for using the same expenditure codes, therefore, the actual charges to a specific grant could not be determined.

Federal Handicapped Deinstitutionalized (CFDA 84.009) for the 1994-95 school year:

- At the end of the 1994-95 school year, the district journal vouchered \$76 into this program. Supporting documentation was not available for this transaction.
- The district had \$325 charged to this program, which was attributable to the operation of the school's drill team. Drill team is not an allowable cost under the provisions of the grant.

Chapter 2 (CFDA 84.151) for 1993-94 and 1994-95:

- At the end of the 1993-94 school year the district journal vouchered \$2,588 in expenditures into the Chapter 2 program. No supporting documentation could be located that supported these charges as relating to the federal program.
- At the end of the 1994-95 school year the district journal vouchered \$2,951 in expenditures into the Chapter 2 program. No supporting documentation could be located that supported these charges as relating to the federal program.

Drug-Free Schools (CFDA 84.186) for 1993-94 and 1994-95:

- During 1993-94 the track coach was paid with Drug-Free School funds; the coach was not an allowable cost under the terms of the grant) \$326.
- A 1993-94 teacher workshop covering quality schools which was not allowable under the terms of the grant) \$2,225.
- A 1993-94 unidentified charge of \$149.
- At the end of the 1994-95 school year, the district journal vouchered \$5.75 in expenditures into the Drug-Free Schools program. No supporting documentation could be located that supported these charges as relating to the federal program.
- The 1994-95 school year also contained \$1,499 in unallowable charges for such activities as the track coach, the drill team advisor, and student field trips.

U.S. Office of Management and Budget's (OMB) Circular A-87, *Cost Principles for State and Local Governments*, states in part:

To be allowed under a grant program, costs must meet the following general criteria: Be necessary and reasonable . . . be allocable . . . A cost is allocable to a particular cost objective to the extent of benefits received by such objectives.

Furthermore, 34 CFR 200.44(a) states in part:

... an LEA may use funds available under this part only to supplement and to the extent practical, increase the level of non-federal funds that would, in the absence of funds under this part, be made available for the education of pupils participating in Chapter 1 projects, and in no case may funds available under this part be used to supplant those non-Federal funds.

For the 2-year period under audit, the district received \$63,393.13 more in federal funding than the accounting records can support.

These deficiencies occurred because management was not fully aware of federal guidelines and requirements.

We recommend that the district return \$63,393.13 to the Washington State Superintendent of Public Instruction.

We also recommend that the district create and or retain adequate documentation to support charges to its various federal programs.

We further recommend that the district only charge allowable expenditures against federal grants.

Auditee's Response

We concur with your findings for the fiscal years ended August 31, 1995 and 1994.

We have analyzed each finding, and have taken steps to insure that similar occurrences do not repeat themselves in the future. We have hired a new business manager this last year and we feel she is competent to follow state guidelines closely and keep the District fiscally responsible.

Also, we have asked to have a partial audit in the next year to insure that we are in compliance with all regulations.

Our intent is to provide the best possible educational environment for the students of McCleary. Unfortunately, some of our financial decisions appear not to have been made within the constraints of fiscal requirements. However, I think it is important to note that all monies were spent to improve learning for students.

I am disappointed that, prior to this audit, we did not have any findings in the previous audits of our District and now are faced with the number of issues with this audit. I would think that these issues would have been brought to our attention at an earlier date.

Auditor's Concluding Remarks

Based upon the district's response, it appears the issues raised in our findings will be adequately addressed in the future. We will review these issues again next year to assure corrective actions have been taken.

We would like to thank the staff of McCleary School District for their assistance and cooperation throughout the course of our audit.